

TEACHERS' RETIREMENT BOARD
SUBCOMMITTEE ON CORPORATE GOVERNANCE

SUBJECT: Proxy Season Report 2002

ITEM NUMBER: 5

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: November 6, 2002

INFORMATION: X

PRESENTER(S): Janice Hester Amey

Executive Summary

At the end of each fiscal year, staff prepares both a summary and a detailed report covering the year's domestic proxy voting. This item has the Executive Summary attached, however, the detailed report covering all 2,700 companies is not being mailed. Two bound copies will be available at the meeting and a reference copy is maintained in the Investments Office.

As with prior years, CalSTRS voted on a variety of proxy issues during the most recent fiscal year. Over 7,000 votes were cast on the proxy issues of the 2,700 companies held in the CalSTRS domestic portfolio. The number of proxy issues reviewed increased almost 19%, while the number of companies reviewed increased almost 17%. In recognition of the market decline, the number of mergers and acquisitions reviewed declined by 7% over the prior year.

Staff will be available to answer any questions members may have.

CalSTRS Proxy Voting Executive Summary

Fiscal Year 2001/2002

During the 2001/2002 fiscal year, CalSTRS voted on a variety of proxy issues including financial, corporate governance and social issues. Over 7,050 votes were cast on proxy issues of corporations whose shares were owned by CalSTRS. These proxy issues were presented on 2,700 companies. Compared to last year, the overall number of proxy issues increased by 18.6% from 5,944 and the number of companies reviewed increased by 16.6% from 2,314. In addition, the number of mergers/acquisitions reviewed this fiscal year represented less than 3% of the total proxy issues. This is a significant decrease from last year, which had just fewer than 10% of the proxy issues pertaining to mergers/acquisitions.

The major issues voted are summarized below. A detailed proxy voting summary for this period follows this overview:

1. **Election of Directors:** CalSTRS generally votes in favor of directors unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances are: greater than 50% Board representation by company executives, potential conflict of interest due to other directorships or employment, and classification of the company directors.

Number Voted: **2637**

For: **2201**

Against: **436**

2. **Selection of Auditors/Accountants:** CalSTRS generally votes in favor of proposals for the independent auditors and accountants recommended by management unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances are: no adopted formal, written charter, non-audit services other than taxation issues are provided and disclosed, and external auditors with direct investments in audit clients or affiliates of audit clients.

Number Voted: **1583**

For: **818**

Against: **765**

3. **Increase authorized shares:** CalSTRS generally votes against increasing authorized stock unless there is a specific purpose or the increase represents less than 15% of the outstanding shares.

Number Voted: **201**

For: **20**

Against: **181**

4. **Authorized stock split:** CalSTRS generally votes in favor of proposals for a stock split recommended by management.

Number Voted: **20**

For: **15**

Against: **5**

5. **Compensation Plans:** (Stock Options, Incentive Stock Options, Employee Stock Purchase Plans, etc.) Corporations provide a variety of compensation plans to keep executives, employees, and non-employee directors. A number of these plans provide for the issuance of long-term incentives. Compensation Plans are evaluated based on CalSTRS' Financial Responsibility Criteria.

Number Voted: **981**

For: **376**

Against: **605**

6. **Increase shares under stock option plan:** CalSTRS has general guidelines in the area of increasing shares under stock option plans. For example, CalSTRS votes against share increases resulting in the total available shares for all company plans that are more than 15% of the outstanding shares and/or the inclusion of SAR's, restricted stock and other cashless grants.

Number Voted: **550**

For: **128**

Against: **422**

7. **Blank Check Preferred:** CalSTRS generally votes against issuing preferred blank check stock, but the issue is voted on a case-by-case basis.

Number Voted: **2**

For: **0**

Against: **2**

8. **Redeem Shareholder Rights Plan:** CalSTRS generally votes in favor of proposals for redeeming the shareholder rights plan or so called "Poison Pill", but the issue is voted on a case-by-case basis.

Number Voted: **39**

For: **39**

Against: **0**

9. **Spinoff Plan:** CalSTRS generally votes in favor of proposals for a spinoff plan recommended by management.

Number Voted: **0**

For: **0**

Against: **0**

10. **Reorganization Plan:** CalSTRS generally votes in favor of proposals for a reorganization plan, but the proposals are voted on a case-by-case basis.

Number Voted: **13**

For: **12**

Against: **1**

11. **Reincorporate - Management:** Proposals of reincorporation depends on the specific provisions for shareholder protections in the indicated states and is voted on a case-by-case basis.

Number Voted: **15**

For: **9**

Against: **6**

12. **Approve Merger/Acquisition-Management:** CalSTRS generally votes in favor of proposals for the acquisition or merger of the company into another.

Number Voted: **177**

For: **172**

Against: **5**

13. **Indemnify Directors - Management:** CalSTRS generally votes against proposals to indemnify and limit the liability of directors and officers.
- Number Voted: **1** For: **0** Against: **1**
14. **Establish Classified Board - Shareholder:** CalSTRS votes against all proposals to establish a classified board.
- Number Voted: **4** For: **0** Against: **4**
15. **Remove Classified Board - Shareholder:** CalSTRS votes in favor of proposals to have a classified board removed from the company's charter.
- Number Voted: **57** For: **57** Against: **0**
16. **Remove Anti-Takeover - Shareholder:** CalSTRS generally votes in favor of proposals to remove any anti-takeover device from the company's charter.
- Number Voted: **0** For: **0** Against: **0**
17. **Tobacco - Shareholder:** Proposals related to, but not limited to, the marketing, advertising and production of tobacco products are reviewed on a case-by-case basis and guided by CalSTRS' Statement of Investment Responsibility.
- Number Voted: **2** For: **0** Against: **2**
18. **MacBride Principles/C.E.R.E.S. Principles - Shareholder:** CalSTRS, guided by CalSTRS' Statement of Investment Responsibility, votes in favor of proposals requesting that a company endorse the MacBride Principles and the C.E.R.E.S
- Number Voted: **10** For: **10** Against: **0**
19. **Labor Practices - Shareholder:** Proposals submitted by shareholders on issues such as child labor, forced labor, and wage levels are reviewed and voted on a case-by-case basis and guided by CalSTRS' Statement of Investment Responsibility.
- Number Voted: **38** For: **36** Against: **2**
20. **Military-Defense Related - Shareholder:** Proposals submitted by shareholders on issues such as redirection of defense business and development on specific weapons systems are reviewed and voted on a case-by-case basis and guided by CalSTRS' Statement of Investment Responsibility.
- Number Voted: **8** For: **0** Against: **8**

21. **Diversity of Employment/Board of Directors - Shareholder:** Proposals submitted by shareholders on issues regarding diversity are reviewed and voted on a case-by-case basis and are guided by CalSTRS' Statement of Investment Responsibility.

Number Voted: **9** For: **4** Against: **5**

22. **Compensation - Shareholder:** Proposals submitted by shareholders on the issue of officer and director compensation are reviewed and voted on a case-by-case basis and guided by the CalSTRS' Financial Responsibility Criteria.

Number Voted: **45** For: **26** Against: **19**

23. **Other-Miscellaneous - Management:** CalSTRS generally votes in favor of these proposals recommended by management, but the issue is reviewed on a case-by-case basis.

Number Voted: **402** For: **304** Against: **98**

24. **Other - Miscellaneous - Shareholder:** CalSTRS generally votes these issues on a case-by-case basis.

Number Voted: **237** For: **127** Against: **110**

25. **Approval of Poison Pill:** CalSTRS generally votes against management proposals to approve shareholder rights plans, but does decide these on a case-by-case basis. In addition, CalSTRS generally votes in favor of shareholder proposals requesting that all future shareholder rights plans be put to the shareholders for a vote prior to enforcement. For each situation, CalSTRS is guided by the CalSTRS' Financial Responsibility Criteria.

Number Voted: **20** For: **13** Against: **7**